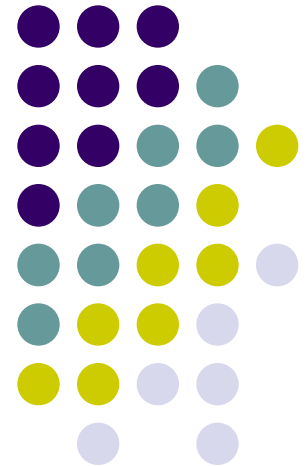


# Moving From Dependency to Sustainability

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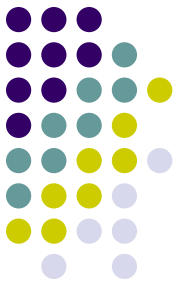
*HUD Partners' Planning Meeting  
Atlanta GA  
September 13, 2011*



# Possible Roles



- Funder
- Sponsor
- Developer
- Lender
- Trainer
- Asset Manager
- Service Provider



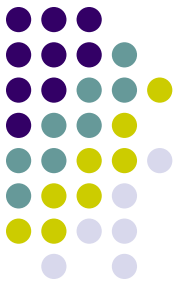
# Expanding Your Role

- **Assessing Strengths**  
Funding  
Resources
- **Understanding Staff Capacity**  
Experience  
Skills
- **Programmatic Goals**  
Units  
Families Served
- **Financial Goals**  
Creating Organizational Resources  
Creating Programmatic Resources

# Three Elements of Funding



- Sources – Where can you get it?
- Uses – What can you use it for?
- Timing – When do you have to have it?

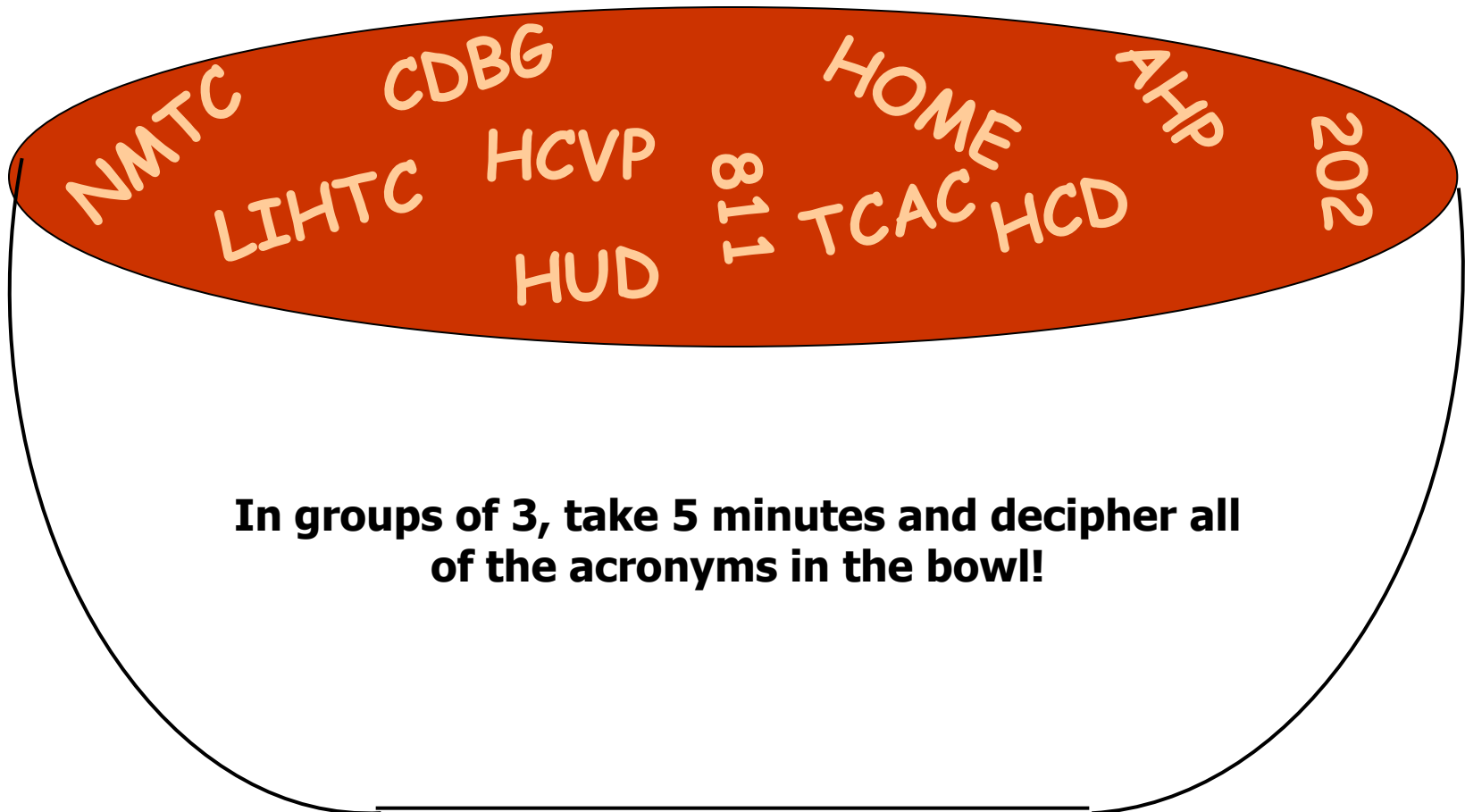


# Sources

- Three Basic Options
  - Grants and other subsidy
  - Debt
  - Equity



# The Alphabet Soup Game



**In groups of 3, take 5 minutes and decipher all of the acronyms in the bowl!**

# The Alphabet Soup Game



- |          |                                                        |
|----------|--------------------------------------------------------|
| 1. NMTC  | A. Section 202 – Housing for the Elderly               |
| 2. CDBG  | B. Housing and Community Development                   |
| 3. LIHTC | C. Housing Choice Voucher Program                      |
| 4. 202   | D. Affordable Housing Program                          |
| 5. HOPWA | E. New Markets Tax Credits                             |
| 6. HCVP  | F. Housing Opportunities for Persons with AIDS         |
| 7. HUD   | G. US Department of Housing & Urban Development        |
| 8. 811   | H. Section 811 – Housing for Persons with Disabilities |
| 9. CDFI  | I. Community Development Financial Institution         |
| 10. HOME | J. Community Development Block Grant                   |
| 11. HCD  | K. Low Income Housing Tax Credit                       |
| 12. AHP  | L. Home Investments Partnership Program                |



# Grants and Other Subsidy

- Federal Home Loan Bank – Affordable Housing Program and the Community Investment Program
- Local Housing Authority – Housing Replacement Factor Grant or Capital Grant funding
- Foundations
- Federal HOME, CDBG funds, NSP
- Brownfields
- Choice Neighborhoods Initiative



# Grants and Other Subsidy (cont'd)



- Neighborhood Stabilization Program (NSP)
- Financial Institution Community Development Corporation or Community Development Financial Institution (CDFI)
- Community Development Entity (CDE) - New Market's Tax Credit Syndication



# Debt - Bank Financing

- The bank loan amount will be limited to 80% or less of the lower of cost or appraised value.
- Project will serve as collateral for the loan
- Guarantee of sponsor (partnership) is required
- Debt service coverage of a minimum of 1.2x is required



# Capital Funds Financing

- Allows PHAs to borrow money backed solely by a pledge future Capital Funds
- Loan proceeds must be used be Capital Fund eligible uses
- Loan proceeds can be used for accelerated modernization, new development, or mixed-finance projects

# Equity



- Low Income Housing Tax Credits
- New Markets Tax Credits
- Historic Tax Credits

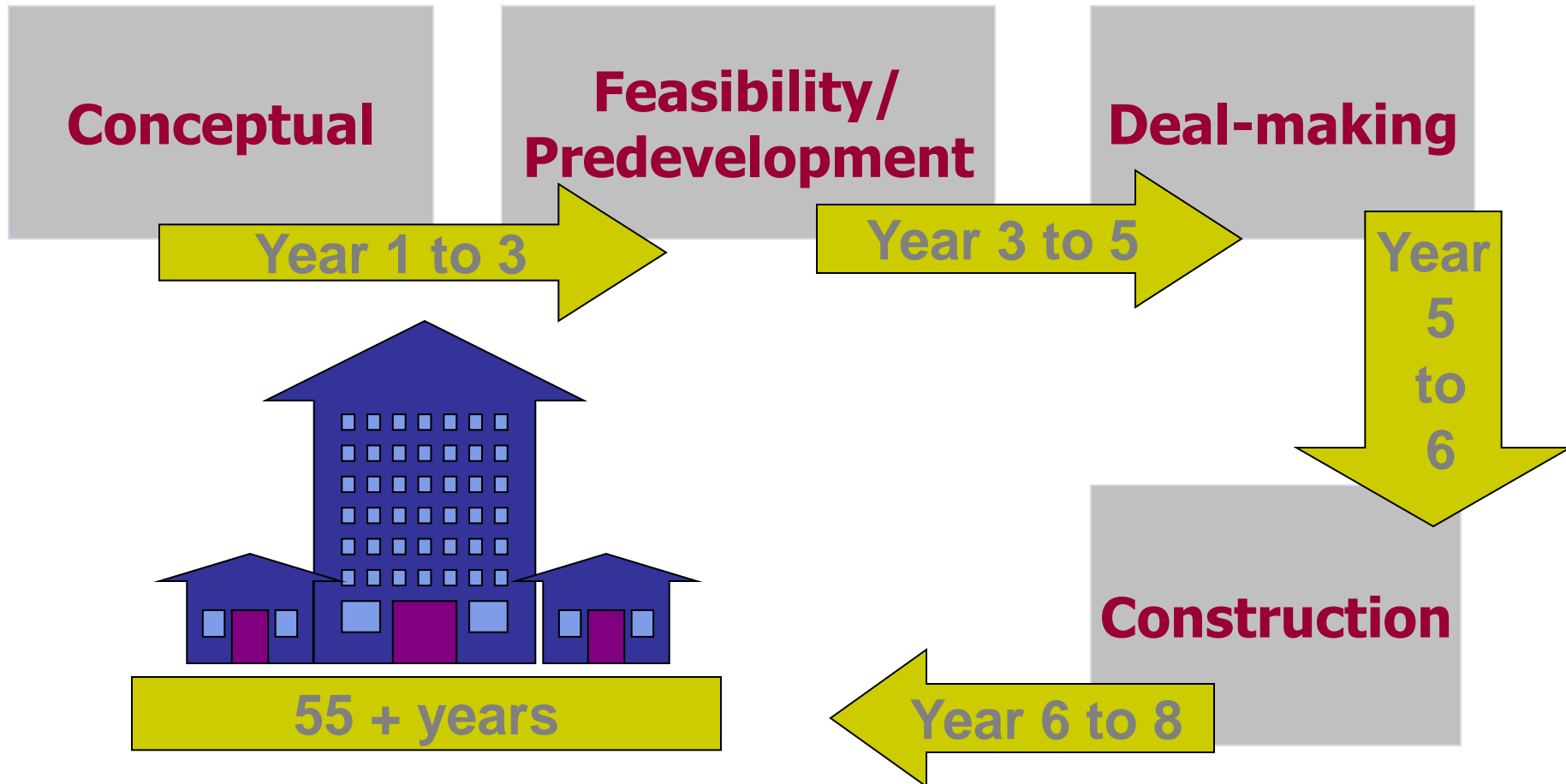
# Where You Can Spend It - Example



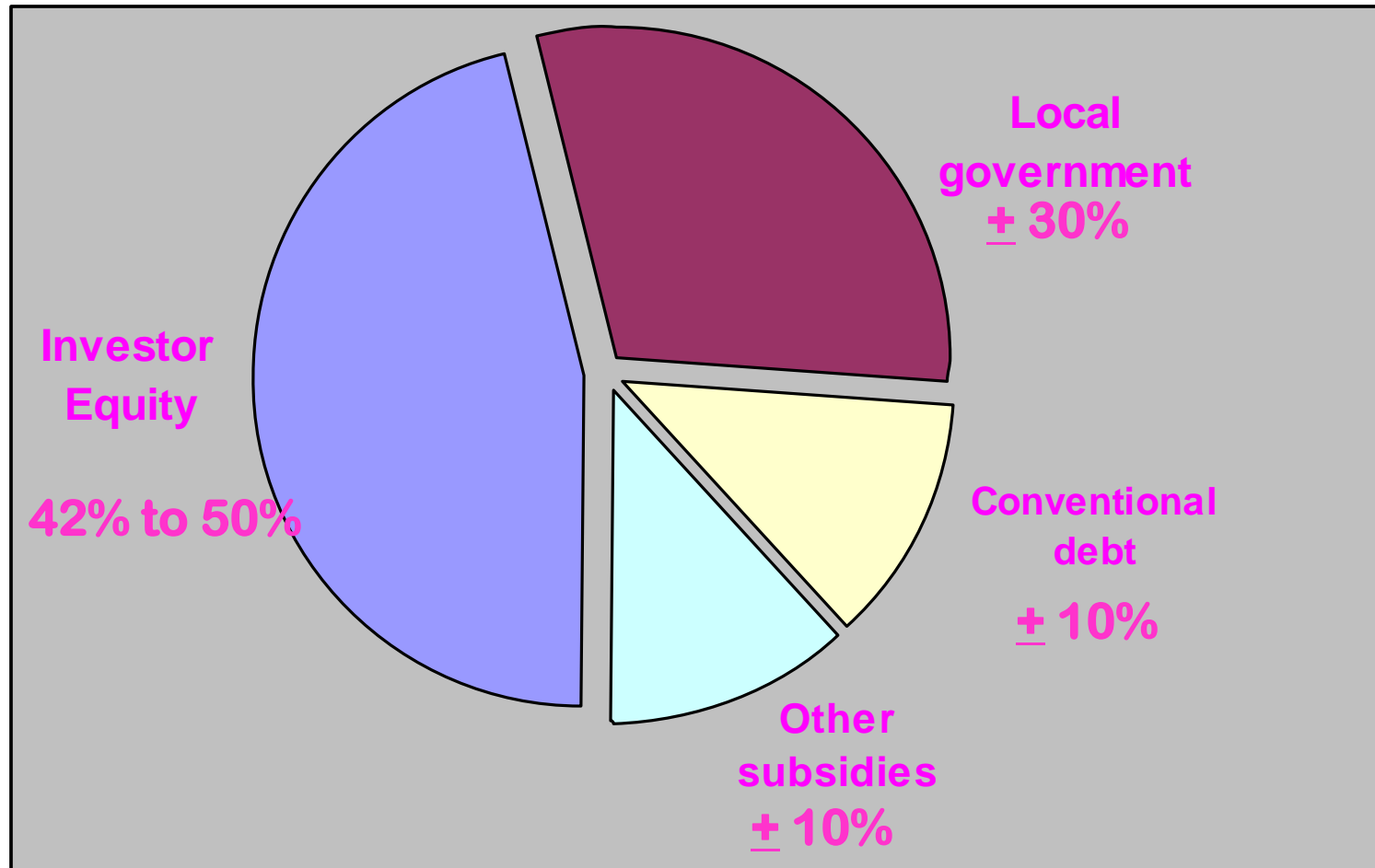
<b>Cost</b>	<b>Budget</b>
Land	\$100,000
Site Work	\$468,667
Direct Construction	\$2,159,657
General Requirements	\$155,269
Contingency	\$200,000
G/C Overhead/Project	\$210,265
Architect	\$69,008
Construction Interest	\$97,963
Construction Loan Fee	\$35,000
Permanent Loan Fee	\$10,000
Legal fees of Syndication	\$17,500
Other Legal	\$2,500
Misc. Soft Costs	\$34,159
Developer Fee	\$415,000
Reserves	\$50,000
<b>TOTAL</b>	<b>\$4,024,998</b>



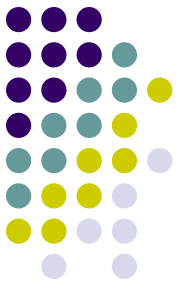
# Timing The Money



# Typical affordable rental financing using tax credits



# The Fourth Element of Deal-Making



- Does it Pencil Out?



# The Back of the Envelope



1. Uses – Your Budget Elements
2. Sources - Identify Financing Components
  - Calculate Potential Tax Credits
  - Calculate Potential Revenue Stream
  - Determine Debt Opportunity

# Your Budget Elements



Cost	Budget
Land	\$100,000
Site Work	\$468,667
Direct Construction	\$2,159,657
General Requirements	\$155,269
Contingency	\$200,000
G/C Overhead/Project	\$210,265
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Developer Fee	\$415,000
Reserves	\$50,000
<b>TOTAL</b>	<b>\$4,024,998</b>



# Financing Components

## Debt

- the secured component
- from banks, insurance companies, etc.
- wide variety of programs with amortization of 25-40 years and varying debt service requirements.
- market rate – current rates, 7+%
- tax-exempt (bonds) – current rates, 5+%

## Equity

- unsecured – the risk component.
- conventional equity – seeks cash flow and appreciation as a return  
current expectations, mid teens and up
- tax credits equity – tax credits substitute for cash flow for certain types of corporate investors  
current expectations, 7.75 to 8% (internal rate of return)

## Soft Debt

- may or may not be secured
- from municipalities, state agencies, etc.
- no mandatory payments
- only for affordable projects

# Tax Credit Calculation Step 1



Cost	Budget	Basis
Land	\$100,000	\$0
Site Work	\$468,667	\$468,667
Direct Construction	\$2,159,657	\$2,159,657
General Requirements	\$155,269	\$155,269
Contingency	\$200,000	\$200,000
G/C Overhead/Project	\$210,265	\$210,265
Architect	\$69,008	\$69,008
Construction Interest	\$97,963	\$97,963
Construction Loan Fee	\$35,000	\$35,000
Permanent Loan Fee	\$10,000	\$0
Legal fees of Syndication	\$17,500	\$0
Other Legal	\$2,500	\$2,500
Misc. Soft Costs	\$34,159	\$34,159
Developer Fee	\$415,000	\$415,000
Reserves	\$50,000	\$0
<b>TOTAL</b>	<b>\$4,024,998</b>	<b>\$3,847,488</b>

# Tax Credit Calculation Step 2



Total Units	65
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Total Tax Credit Units	52
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Eligible % of Units	80%
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# Tax Credit Calculation Step 3



Eligible Basis (from Step 1)		\$3,847,488
minus Federal Grants	-	\$0
times Qualified Census Tract boost (130%)	x	100%
= Adjusted Basis		\$3,847,488
times eligible tax credit units (from Step 2)	x	80%
= Qualified Basis		\$3,077,990
times current tax rate	x	7.78%
= Annual Tax Credit Amount		\$239,467.65
times 10 year allocation	x	10
= Total Credits		\$2,394,676.53
times equity value per dollar	x	\$0.81
= Total Equity in Transaction		\$1,939,687.99

# Projected Income Calculation



	Number of Units	Monthly Income	Annual Income
Market Rate	13	\$600	\$93,600
Tax Credit	52	\$425	\$265,200
Other Income	65	\$8	\$6,240
Gross Potential Income			\$365,040
minus annual vacancy rate (5%)		-	\$18,252
<b>Effective Gross Income</b>			<b>\$346,788</b>

# Debt Opportunity Calculation



	Per Unit	Number of Units	Annual Amount
Effective Gross Income		65	\$346,788
minus operating costs	\$166.67	65	- \$130,000
minus replacement reserve	\$16.67	65	- \$13,000
= Net Operating Income			\$203,788
divided by debt coverage ratio			1.15
= Amount Available for Annual Debt Service			\$177,206.98
divided by 12 months			÷ 12
= Amount Available for Monthly Debt Service			\$14,767.25



# Debt Opportunity Calculation



Amount Available for Monthly Debt Service

\$14,767.25

Amortization Period

25 years

Interest Rate

7.5%

**Total Debt Opportunity**

**\$1,975,316**

# Does it Pencil Out?



Total Development Cost	\$4,024,998.00
minus Equity available	-\$1,939,687.99
minus Permanent Loan	-\$1,975,316.36
<b>= GAP</b>	<b>\$109,983.65</b>

***Is This The Deal For YOU?***